

VZCZCXRO8554
RR RUEHCD RUEHGD RUEHHO RUEHMC RUEHNG RUEHNL RUEHRD RUEHRS RUEHTM
DE RUEHME #1536/01 0812030
ZNR UUUUU ZZH
R 222030Z MAR 06
FM AMEMBASSY MEXICO
TO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE
RUEHC/SECSTATE WASHDC 9775
RUCPDOG/DEPT OF COMMERCE WASHDC
RUCPCIM/CIMS NTDB WASHDC

UNCLAS SECTION 01 OF 02 MEXICO 001536

SIPDIS

SIPDIS

STATE FOR EB/IFD/OIA, WHA/EPSC AND WHA/MEX
COMMERCE FOR ITA/MAC/NAFTA ANDREW RUDMAN

E.O. 12958: N/A

TAGS: [EINV](#) [ETRD](#) [KTDB](#) [PGOV](#) [MX](#)

SUBJECT: EFFECT OF VIOLENCE ON MEXICAN INVESTMENT

REF: A. 05 MEXICO 3747

[1](#)B. 05 MEXICO 4344

[1](#)1. SUMMARY. Following the Mexican Competitiveness Institute's (IMCO) announcement that Mexico loses 15 percent of GDP, or USD 1.8 billion due to crime, business leaders including the presidents of CCE (Business Coordination Council, an umbrella group of trade associations); Coparmex (the National Employers Federation); and the head of the Mexican Stock Exchange; called for a reduction in violence for Mexico to avoid losing new foreign investment. U.S. and foreign businesses and business associations told us that although security spending is increasing, security has been an issue for some time and recent violence has not changed investment attitudes. While businesses may not publicly admit that crime is affecting investment decisions, it is increasing their costs. All three Presidential campaigns have made security issues an important part of their platforms. END SUMMARY.

VIOLENCE MAY PREVENT INVESTMENT

[1](#)2. IMCO found in its study "Security and Competitiveness" that Mexico loses 15 percent of GDP or USD 1.8 billion due to delinquency. The Citizens Institute for Studies of Insecurity recently found that 54 percent of all Mexicans felt insecure.

The true number may be substantially higher as crime is typically underreported in Mexico. According to the Citizens Institute for Studies of Insecurity, Baja California and the Federal District have the highest crime rates. CCE called on the Secretariat of Government to increase the coordination between all levels of authorities to fight against the trend.

Alberto Nunez Esteva, President of Coparmex, stated that "violence is not the friend of investors. Businessmen cannot invest when they are worried about their physical safety due to the increase in kidnappings." The Minister of Government, Carlos Abascal disagreed, noting that violence has been concentrated in only a few areas, principally along the border. This is the same opinion that has been expressed by officials for over a year (REFTEL B). Coparmex went even further by offering to work with government to decrease crime, even suggesting an alliance with the U.S. in a fight against drug related violence.

[1](#)3. In a recent speech, Guillermo Prieto Trevino, president of the Mexican Stock Exchange, declared that financial markets do not do well in times of uncertainty and insecurity. He admitted that Mexican markets could become excessively volatile due to the upcoming elections and that violence could heighten this volatility. The government has yet to undertake a positive campaign to reduce the violence and insecurity.

14. A recent AmCham study found that companies have doubled their expenditures on security from two to four percent of total expenditures over the last three years. AmCham has proposed the creation of a business security working group that would coordinate with the federal government to increase security. It believes the current security environment imposes an unnecessary cost on its members and could cause potential investors to look elsewhere. Coparmex, Cemex and Vitro told econoff in Monterrey that they view the increase in drug violence as a possible precursor to executive kidnappings and other crime. Armored vehicles and body guards are the norm for executives in Monterrey.

15. Econoff met with the Director General of "Aregional," a public finance consulting group in Mexico. A recent study completed by their office indicates that the areas in Mexico that have the highest growth rate also have the most security problems. Security has played an increasing role in site selection. Electrolux, which recently completed a large plant in Ciudad Juarez, told us that they reviewed security issues at six sites before selecting the most secure site for their latest investment. A U.S. energy company in the preliminary stages of determining where to invest overseas recently contacted post with a list of security questions about Mexico. COMMENT. This appears to be a paradox that growth and security issues are occurring in the same area. Since the implementation of NAFTA, the border region has been Mexico's largest growth area. Security issues have also increased dramatically in the region as the government increases its efforts against narcotics trafficking. END COMMENT.

MEXICO 00001536 002 OF 002

16. However, companies are more concerned with getting their product to market than they are with the effect of violence on personnel. At a recent AmCham event in Guadalajara, participating firms including the Trade Development Director for the State of Kentucky told us that they are more concerned with the threat to their cargo on highways than they are with violence. The fear of shipments being hijacked and/or being breached in order to move contraband/narcotics across the border was an area of concern raised by businesses in Monterrey as well. This fear has existed for over a year (Reftel B). Mateo Beja, CEO of Yale Textiles, also told econoff that he has to pay for escort protection for every one of his shipments. Despite this he said every year he loses a few trucks to hijackings. He sarcastically noted that miraculously the hijacked shipments always seem to be his high value merchandise.

17. The Director of the Japanese Maquila Association in Tijuana, Keisuke Matsuo, recently told econoff that his members view the violence as a war between Mexican drug gangs with innocent Mexicans caught in the middle, but the violence does not affect his members. This is a dramatic shift from last year (Reftel A) when the Japanese Embassy predicted that all Japanese investment would leave Mexico due to the security situation. Economic development officials in Tijuana have recently announced that, although they realize violence is an issue, they do not want to take steps to publicize it more widely as it may cause investment to leave Tijuana for other areas in Mexico.

18. The current security situation is causing some groups to increase security cooperation. The Customs Trade Partnership Against Terrorism (C-TPAT) in Ciudad Juarez has discussed initiating a program in the Hermosillo region. The Consulate General in Juarez has offered assistance and has noted that this may be an opportunity to initiate an Overseas Security Advisory Council (OSAC) in Hermosillo.

¶9. Dr. Eduardo Sojo, Chief of the Mexican Presidency's Office of Public Policy, admitted recently that security was one of the two principal items that had not been effectively resolved during the Fox administration. He noted that Fox had submitted a proposal to have one federal police force instead of five. Mexico currently has 420,000 police officers, although only 20,000 are federal officers. The lack of synergy between police forces has left them unable to effectively respond to recent security issues, according to Sojo. In Sojo's view, the security situation in Mexico requires the collaboration of all levels of government. He concluded his comments by stating that legislation is needed to modify the roles of Mexico's security institutions and that these institutions are not designed to foster consensus and show the legislature why the laws need to be modified.

COMMENT

¶10. Although no business or association was willing to identify a specific investment that had been lost due to the security situation in Mexico, our contacts admit that it increases the cost of business in Mexico, thereby decreasing competition, and remains a primary concern. Security costs have doubled over the last two years and companies, while not afraid to invest, note that they are fearful of losses from hijacking and security issues. The press suggests that many organizations may be publicly speaking out about violence to get the presidential candidates to take a stand on the issue. The fact that all three candidates have spoken regularly on the issue and Sojo's admission that the Fox administration fell short on security indicate that this is more of an issue than our contacts may want to indicate.

Visit Mexico City's Classified Web Site at
<http://www.state.sgov.gov/p/wha/mexicocity>

KELLY